

The Aug'25 MPC minutes were a slight departure from the policy statement which showcased a balanced guidance with hawkish streaks. Meanwhile the minutes signalled a divide between the RBI and Govt. members with the commentary by latter providing dovish signals.

That said, current uncertainty on the external front and ongoing transmission of earlier rate cuts had prompted the RBI led Monetary Policy Committee (MPC) to maintain the status quo in its August meeting. Neutral stance was maintained, as it allows enough flexibility to react to the unfolding growth-inflation dynamics. The RBI maintained its FY26 GDP growth forecast at 6.5%, signalling optimism over India's resilience, but MPC members agreed that heightened global uncertainty warranted caution on fresh policy moves. While headline inflation has moderated in recent months, it is largely attributed to fall in food prices and base effects. The fall in food inflation may be temporary and inflation is likely to move upwards from third and fourth quarter in FY26. In view of the evolving domestic growth-inflation dynamics, the MPC has resolved to maintain a close vigil on the incoming data to chart out the appropriate monetary policy path.

Key themes in MPC minutes:

a. Divide seen between RBI and Govt. members on growth outlook

A clear divide has emerged between the RBI leadership and the govt. nominees on the growth outlook. RBI Governor Sanjay Malhotra and Deputy Governor Poonam Gupta maintained that India's growth remains resilient, supported by robust domestic demand, a healthy investment pipeline, and a pickup in rural consumption. They highlighted that despite global headwinds, high-frequency indicators continue to signal strength in the underlying recovery, reinforcing the central bank's confidence in sustaining growth momentum through FY26-27. In contrast, Dr Saugata Bhattacharya and Dr Nagesh Kumar, the govt. nominated members, expressed greater caution. Their assessment pointed to global tariff uncertainties, particularly US tariff measures, as a major downside risk for India's external sector. Both stressed that the impact of higher trade barriers could weigh on exports, investment sentiment, and manufacturing growth, creating vulnerabilities in an otherwise resilient economy. The divergence within the MPC highlights a growth-support vs. inflation-anchoring trade-off.

b. Is there space for further policy easing?

The August MPC minutes reflect a nuanced divide among members regarding the scope for monetary easing. Outgoing RBI nominee Dr Rajiv Ranjan acknowledged that space for a rate cut does exist in the current macroeconomic setting, particularly given the softening trajectory of headline inflation and resilience in growth. However, he argued in favour of deferring such action, highlighting the importance of retaining policy flexibility in the light of uncertain global and domestic risks. Supporting this dovish assessment, the government nominees noted that the evolving inflation-growth mix may provide room for a rate reduction. For instance, Dr Nagesh Kumar noted that *"while the benign inflation outlook provides policy space, we may wish to wait and watch as the transmission of the existing actions takes place and how the trade policy uncertainties play out before considering policy actions at the October meeting of the MPC."* Their emphasis was on safeguarding growth momentum, especially amid global trade tensions and tariff uncertainties that could weigh on external demand.

c. RBI members stayed focused on inflation trajectory expected to trend higher in the coming quarters

Both RBI Governor and Deputy Governor Poonam Gupta emphasized that inflation is expected to trend higher in the coming quarters, which will likely limit further room for monetary easing. This acknowledgment underscores the MPC's cautious posture as they seek to preserve the disinflation momentum while staying vigilant to shifting dynamics. The downward revision in inflation forecasts for FY26, projected at 3.1%, is largely driven by volatility in food prices, especially vegetables. While this offers a temporary reprieve, MPC members flagged that such declines aren't broad-based and may reverse easily. Core inflation, which excludes food and fuel, remains sticky and is expected to stay above 4%, eroding the durability of current disinflation gains.

Most RBI members signalled that the MPC appears to be walking a tightrope, balancing the need to support growth with the priority of anchoring inflation. While growth prospects (including Q1 FY27 GDP also around 6.5-6.6%) provide some buffer, sticky core inflation and external uncertainties temper any rush toward rate cuts.

d. We maintain our call of token 25-50bps rate cut in final leg of policy cycle

While the RBI Governor has veto power in case of a tie between RBI members and government nominees, we still abide by the dovish policy bias signalled by the latter. We expect another 25-50bps rate cut in H2 FY26. Even as the Governor signalled 'we have done whatever is needed for now', we are holding onto our view of a final leg of rate cut cycle in H2 FY26. This is premised on following factors: (a) our inflation projections for next four quarters are trailing behind the MPC by another 30-50bps raising possibility of another round of sharp downward revision in October (for 3rd consecutive meeting); (b) growth has not yet shown fault lines on tariff impact yet a combination of weakening US growth, delayed capex decisions by corporates (by 6-12 months) and lagging capital flows may show up in growth in H2 FY26 and (c) Fed is also likely to start the second leg of rate cutting cycle from Sep'25 on growth worries even as quantum remains uncertain given lack of clarity on tariff hike impact on US inflation. That said, the exact timing for next rate cut is 'too early to call' for in an uncertain world we are living in.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Key Statements by members (paraphrased)

Member	Key Statements
RBI Governor Shri Sanjay Malhotra	<p>The RBI Governor noted that the economy is currently navigating the dual forces of benign inflation on the one hand and tariff-related uncertainty on the other. Between February and June, the policy mandate was to capitalize on easing inflation to support growth and to bolster domestic business confidence amidst external trade risks. That objective has largely been achieved. At this stage, however, global macroeconomic risks could surface, warranting greater caution. <i>“While growth has remained steady, inflation outcomes have been far more benign on account of higher food price moderation. Although we are likely to see inflation undershooting the target in the near term, with a likelihood of monthly numbers even crossing the lower tolerance band of 2%, headline inflation is projected to inch up from Q3 onwards. The uncertainties of tariffs are still evolving. Considering all these, especially the current state of uncertainty on the external front, monetary policy needs to remain watchful.”</i> Accordingly, the Governor emphasized that the current juncture calls for a wait-and-watch approach, making this an appropriate time to pause on further policy action.</p>
Dr. Nagesh Kumar	<p>He emphasized that while tariff uncertainty continues to loom as an overhang on the growth outlook, there is also a case for policy support. Against this backdrop, he argued that a wait-and-watch approach is prudent at this juncture, as it would allow the full transmission of past easing measures while providing time for greater clarity on the tariff situation. <i>“...sales growth moderated, and private investment is not showing signs of picking up. Credit offtake has also not happened in the expected manner, despite lower interest rates. The private investment sentiment is adversely affected by the trade policy uncertainties. The US announcement of 25% tariffs on India is causing a lot of anxiety about the economic outlook. While the case for stimulating private investments and urban demand remains, and the benign inflation outlook provides policy space, we may wish to wait and watch as the transmission of the existing actions takes place and how the trade policy uncertainties play out before considering policy actions at the October meeting of the MPC.”</i></p>
Shri Saugata Bhattacharya	<p>He emphasized that this is an opportune time to step back and objectively evaluate the impact of recent rate cuts on credit costs and credit growth. At the same time, he highlighted that the US tariff hikes and the prospect of additional punitive measures have introduced a degree of macroeconomic uncertainty. This fluid external environment, in his view, argues for preserving some monetary space for a potential policy shift at a later stage. <i>“...uncertainty about global trade and economic activity remains elevated. The outlook on India-US trade, in particular, has become fraught on India-specific US tariffs plus unknown additional penal tariffs. Geo-strategic considerations have thus added another layer of uncertainty. If these tariffs persist, there is likely to be an adverse impact on India growth in FY26, and probably beyond. All these have clouded the outlook on India’s external balance, both current and capital accounts.”</i> Given this level of extant and evolving uncertainty, policy decisions will continue to be based on incoming data and be taken on a meeting-by-meeting basis.</p>
Prof. Ram Singh	<p>He noted that while inflation is currently lower and growth remains robust, conditions could shift. He cautioned that the imposition of heavy tariffs could trigger imported inflation, a risk reinforced by the RBI’s own projections of a rebound in inflation during Q3 and Q4 of FY26. <i>“The average core inflation is likely to remain above the target range during coming quarters (in FY26)”</i>. <i>“There is a risk of imported inflation due to uncertainty about the prices of some commodities and the unquantifiable implications of volatility in global financial markets.”</i> Given the possibility of a sharp upturn, he stressed that policy decisions should be guided by the objective of anchoring long-term sustainable inflation rather than short-term movements. <i>The headwinds emanating from a fluid geopolitical scenario, heightened global uncertainties, and volatility in international financial markets pose serious risks to the domestic growth outlook. The unusually high degree of uncertainty on both inflation and growth fronts calls for greater caution.</i> He further emphasized that the policy trajectory will also be shaped by the sectoral impact of export tariffs.</p>
Dr. Rajiv Ranjan	<p>Inflation has been softer but the fall in inflation has been largely driven by volatile food inflation, which dipped into negative in the last 2 months. However, core inflation remains elevated at 4.1%, despite being 30 bps lower in July. Hence, he feels that the balance of risks calls for status quo on rates. Also, the neutral stance would be appropriate considering that the CRR cuts will take effect between September and November. <i>“In next few months, we can have clarity on how tariffs and their impact on the macro economy evolve. The prudent course of action is to allow time for the recent policy easing to transmit fully into the economy and to assess its effects on real economic activity. An additional rate cut at the current juncture could also reduce our policy space should global or domestic risks materialise.”</i></p>
Dr. Poonam Gupta	<p><i>“Despite receding from their peak of May and June, financial market volatility and geopolitical uncertainties have remained elevated; and some trade uncertainties have aggravated for India. Notwithstanding these challenges, the Indian economy remains resilient overall. The moderation in headline inflation is not general, but is primarily driven by a deflation in food. Besides, CPI inflation is likely to firm up above 4% from Q4 FY26 as the unfavourable base effects would come into play and move closer to 5% in Q1 FY27 even with moderate price momentum. Additionally, core inflation is likely to remain above 4% in the near to medium term, barring any major negative shock to input prices.”</i> In her view, a wait-and-watch approach at this stage would serve multiple objectives simultaneously, allowing time for the impact of past measures to play out while keeping policy space intact.</p>

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

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